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THE ORGANIZATION AND MANAGEMENT OF THE AGENCY SYSTEM

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I

The Vital Relation of the System to the Life Insurance Business.

The Agency System Provides the Force which Moves the Business.—Before we can intelligently comprehend the organization and management of the system, we should endeavor to get a thorough understanding of its part in the life insurance business. It represents the generating force which gives life and vitality to the business. Just as a railroad company may have a magnificent equipment of rolling stock, stations, etc., which is without use or value until the motive power is applied, so the life insurance company may have a complete equipment for business, but until the motive power or force is applied it is useless. Equipment and motive power are interdependent. To vary the illustration, the agency system gathers up the raw material, and with the help of the medical department, prunes it, and puts it in form to become a part of the great life insurance structure.

The English Method of no Agents or Branches.—While the practice of paying commissions to compensate agents and solicitors was introduced in England during the first part of the nineteenth century, little progress was made with it, and it was not systematically developed until it became a distinguishing feature of the American life insurance business. In 1810, Mr. Francis Baily, a distinguished authority, roundly condemned the practice of employing agents on commission on the ground that it opened the door "to fraud and imposition." A number of the English companies, conspicuous among which is the Equitable Society of London,

founded in 1756, do not employ agents. Notwithstanding the fact that the Equitable has been in existence nearly one hundred and fifty years, during which period it has served its members economically and faithfully, it has had a gradual diminution in recent years of new policies issued. For example, in 1898, it issued four hundred and fifty policies, while in 1902 it issued only two hundred and fifty. Its accumulations, however, in proportion to the insurance in force, because of the long time in which it has been in business, are very large. While its payments for losses and claims in 1902 amounted to \$1,054,790.10, its premium receipts in the same year amounted to \$935,914.50, thus illustrating the fact, which every agent should know and with which the general public should become better acquainted, that a time will come in the history of every reserve life insurance company, because of the uniform premium and the advancing age of its policyholders, when the premium receipts will be inadequate, and the greater portion of the losses and claims will have to be paid out of the accumulated reserve fund.

Under the old English method, applicants for insurance were expected to present themselves in person to the membership committee of the governing board. They were subjected to a verbal examination and in some instances to a physical examination, especially in later years. This practice obtained during the first half of the nineteenth century, from which was gradually evolved a modification of the present American agency system. The commission originally paid amounted to 10 per cent. of the first year's premium and 5 per cent. on renewal premiums. The development and extension of the business made it necessary, even in England, to establish branches and their machinery to receive applications and premiums.

The System as it Stands To-day an American Creation.—At the time life insurance received its impetus in this country, which was soon after the Civil War, it was found that even a modification of the English method would not apply to this country, because of the great distances, comparatively sparse population, and otherwise different conditions. This observation and experience on the part of the companies resulted in the development of the present agency system. It is a recognized principle of conservative underwriting, that the business should be sufficiently scattered to neutralize the possible effect of local epidemics and conditions. To this end, the

companies proceeded to extend their business to different states, ultimately to all the states, and some few of the companies have spread beyond the borders of our own country.

Soliciting business is by no means confined to life insurance, but is a course pursued in all branches of industry. The wonderful growth and progress of the life insurance business in this country is in the main due to this agency system, through which the economic value of life insurance has been brought home to the knowledge of our people.

II.

Limitations of the Life Insurance Agent.

Legal Definition of the Term "Agent."—Generally speaking, under the common law the principal is liable for the act of his agent. It has, however, become a well-settled rule of law, that the acts of agents are only binding upon the principal to the extent of the power delegated. It is, therefore, the custom of the companies clearly to define the power of the agent, not only in the agent's contract but also in the policy contract, so as to bring home to the insured a full knowledge of the agent's authority. This authority, as a rule, consists of soliciting applicants for insurance and collecting the initial premium only, while the agent is expressly forbidden to bind the company, and merely submits the application for approval or disapproval of the company. He is not permitted to waive forfeitures, to grant credit, or to modify the contract clearly and definitely expressed in the application and policy applied for. It can be readily seen that, with the large number of agents scattered throughout the country, the company would become hopelessly involved if agents were permitted under the common law principle to bind the companies which they represent in matters foreign to their delegated authority. Notwithstanding these limitations, however, the courts of some of the states have gone out of their way to hold the companies liable for the acts of agents; and, therefore, it is essential not only that agents be cognizant of the conditions of policy contracts, but of the necessity of keeping strictly within the limitations of their contract of employment.

Improper Use of the Term "Agent."—In view of the necessity of limiting the authority of the life agent, it is a mistake, which has

given solicitors and companies much annoyance, to use the term "agent." I am aware that the practice is so general that it would be difficult to substitute another title. I believe, however, that the time will come when the agent as now known and understood will be designated either as life underwriter, solicitor or salesman. I favor the first designation of "life underwriter." While the term "underwriter," as at present employed, does not necessarily comprehend the soliciting of a contract to be written, there is no reason why the term should not be given a broader meaning than that hitherto attached to it.

Life Underwriting a Profession.—The representative of a life insurance company who proposes a contract to a prospective applicant is already generally regarded as something more than a solicitor. He is supposed to have become an expert in the business of life insurance to a degree that enables him to select the contract best suited to the needs of a prospective applicant, and to act, therefore, in an advisory capacity and assume responsibility to that extent. In my opinion, in a comparatively short time life underwriting will be distinctly recognized as a profession; and through either the universities or various life underwriter associations, degrees of competency should be conferred. The interests of the profession should be as jealously guarded and promoted by its members as are the interests of the legal, medical, or any other of the professions.

Dignity and Professional Character of Insurance Recognized by Colleges.—The Prussian government, through its educational bureau, in 1895 established at the University of Goettingen a seminary for instruction in the mathematical, economic, ethical and sociological features of life insurance. This appears to have been the first regular, systematic effort in this direction. In our own country courses of insurance, as is well known, have been established in the University of Pennsylvania, at Yale, Michigan, Wisconsin, and in a number of colleges. Some of the life companies have made a specialty of summer schools of instruction in life insurance, which the graduates of our universities and colleges have been invited to attend. In recent years, the agency system has been strongly reinforced by graduates of our institutions of learning. Many of these have taken a conspicuous and prominent part in field work and have been very successful. In fact, the progress of the business, its professional character, the sharp competition which prevails, the various

intricacies that must be mastered, have made the field infinitely more inviting to the man with a trained and disciplined intellect than to the man of limited education.

III.

The Development of the Agency System as a Part of the Life Insurance Business.

The System Contemporaneous with the Life Insurance Business.—In this country, the agency system is practically contemporaneous with the life insurance business. With the exception of the Presbyterian Ministers' Fund, and kindred institutions, the practice of soliciting business through agents obtained from the very inception of the companies. The terms of employment of agents or solicitors, however, have changed materially during the progress and development of the business. Agents are variously known as managers, general agents, solicitors and brokers, and all these are likely to have helpers. Neither brokers nor helpers are supposed to be under contract with the company, but to be acting merely for and through duly authorized agents.

The Magnitude of the Agency System.—Taking as a basis the licensed agents of Massachusetts, Missouri and California in proportion to the population, we have in this country 63,269 life insurance agents exclusive of brokers. Each agent represents an average population of 1,206 so that he has on an average 300 persons who are heads of families, wage-earners, or possessed of a competency. The average new business during the year 1903, per agent, excluding fraternal insurance, which is not represented by agents, amounted to \$38,500, so that the average income of these agents, depending upon the amount of the premiums and character of contracts, was between \$750 and \$1,200 per annum. In spite of the fact that all agents do not employ their entire time, although numbered among licensed agents, it will be seen that their average income per capita is about equal to the income of the representatives of railroads, banks and commercial houses, as shown by statistics. If, however, we eliminate agents who do not devote their entire time to the business, many of whom possibly do not write a single application in a year, we reduce the number more than half, with consequent improve-

ment in the showing of the average agent. The liberal compensation is justified by the character of service rendered.

IV.

Organization of the Agency System.

How to Secure Material for Organization.—It being admitted that the agency system is a necessity, there naturally arises the consideration of how to secure agents or material for the purpose of organization. It has often been said with much truth, that agents are in a measure born and not made. Just as soils are different and will not grow the same vegetation, so people are differently constituted and all are not adapted to the same class of service.

First.—The man who wants something for nothing, who is looking for an easy berth, who is indifferent to his own welfare and more so to the welfare of others, should not for a moment think of becoming a solicitor for life insurance, because such men must be driven, and a successful life insurance agent is his own driver.

Second.—The man who by instinct is a follower rather than a leader, who does not control but is controlled, who talks more than he thinks, or walks more than he works—and especially if he sits more than he walks—and one who does not possess the faculty of reasoning, and who is not endowed with a progressive spirit, is a failure in soliciting life insurance.

Third.—The life insurance field is inviting to the person of sufficient education to analyze and comprehend thoroughly all the intricacies of a life insurance contract, to grasp sufficient of the mathematical problem to present it intelligently, and to analyze and understand the statements made by the companies; who is gifted with sound reasoning powers, and the faculty of giving expression to thought in a clear, concise, intelligent and forceful manner, and who at the same time possesses courage, energy and perseverance. To select this last named class is the problem of a successful organizer.

While it is impossible always to secure the ideal, it is necessary to aim for it and come as near to it as possible. In a population of upwards of 80,000,000 sufficient material of the right type can be found. The organizer who will pass by the material which is not of the proper type and confine his efforts to looking for the right material, is in the end the successful one. Unfortunately, there are

still organizers who are willing to make a trial of any and all available material. These men have brought discredit upon the life insurance work. There is no royal road to success, nor is there a royal road to finding successful life underwriters. Advertising will not do it; and such men will not find a life insurance office of their own accord, because they are sought after by other industries. Hence, to secure them requires the co-operation of the policyholders who have an interest in promoting the welfare of the company, of reliable men willing to serve in an advisory capacity, and, above all, it requires the personal activity and good judgment of an experienced agency manager.

Intensive vs. Extensive Culture of the Field.—One of the principal difficulties to be overcome is the natural tendency of man to reach out beyond his capacity to assimilate or operate. As soon as a man becomes interested in the subject and contemplates engaging in the business, generally speaking, he at once becomes concerned in securing as large a district as possible. His next step after engaging with the company is to spread his work out so thin as to be ineffective, until experience teaches him that he has made a mistake. It is, therefore, desirable that a solicitor or manager of a district should operate in an intensive way in a small district so that his work becomes known from one inhabitant to another. In this way he can establish a clientele, if he is conscientious and careful in the conduct of his business, that will return to him ample reward for his efforts. A common error made by agents is the assumption that they gain by having exclusive rights to a specified district. It has been found that the best results are secured where different agents of the same company are operating. Where one sows, another reaps, and on the average the combined efforts produce infinitely better results. In one instance the agent may, after repeated effort utterly fail to make an impression. Another agent may come along and approach the subject in an entirely different way and succeed in making an impression at once. Where men are working in the same district, in order to get along harmoniously, it is necessary to be governed by the give and take principle, without attempting to monopolize the business. The one who makes such an attempt is usually the one who fails.

Organization Through the General Agency System.—In the early days of life insurance in this country it became apparent that

it was necessary, in order to extend the business of the companies, to district the territory and delegate the organization work to a person designated either as manager or general agent. The wisdom of this system depends entirely upon the character of the contracts made. If the contract is made in such a way that the agency must contribute to perpetuating the existence of the company or suffer some adequate penalty for failure to do so, then perhaps it is as efficient as any method or system that could be devised. Thus, if the contract with the managing agent incorporates safeguards and makes it necessary for such agent to maintain an average increase in the business which the company aims to do (and this should be a net increase over lapses, deaths and cancellations of from 2 per cent. to 25 per cent. a year, depending upon the age of the agency), or suffer some adequate penalty for not doing it, then the combined effort of the managing agents guarantees the continuance and healthful growth of the company's business. If, however, the contract makes it possible for the managing agent to "lie down" on his past record and through his renewal commissions live upon the company without securing new insurance, while keeping the company out of territory which it could profitably enter, then the system is a failure. If managing agents are not willing to share with the management of the company some responsibility towards perpetuating the existence of the company, then they are not entitled to the compensation which is usually accorded them and they should be relegated to the field as solicitors.

The Part of the Branch Office in Organization Work.—It is a necessity for an agency to have a habitation from which to secure and direct its forces. It is, therefore, customary for the companies to establish and maintain branch offices. These should be owned and controlled by the company in order to avoid any conflict of interests. The managing agent whose province it is to organize the surrounding territory is given the use of the office. If properly directed and controlled by the home office, the branch becomes a source of strength. If, however, the managing agent sets himself up in business in such a way as to control the organization established on behalf of the company with the view of its transfer to himself at will, then it is a source of weakness and frequently results in unfair treatment of the company's agents. The latter fact has led the intelligent agents of this country to insist upon having their

contracts, especially when provision is made for renewals, approved by the company. Managing agents who are more concerned in creating an organization for themselves than for the company they represent, are just as likely to betray the agents at some future time as they are to betray the confidence of the company which entrusted them with the organization work on its behalf.

Agency Contracts.—The respective rights of company, managing agent and solicitor should be clearly and distinctly set forth in the contract between the parties. The duties of the agent, or managing agent, as the case may be, should be unmistakably defined, his compensation clearly set forth, and his powers fully described. The form of contract which does not provide penalties for the non-fulfilment of its terms, indicates want of care on the part of the framers of the same and should put agents on notice of incompetent or, to say the least, careless management.

V.

Management of Agency System.

General Problems in Agency Management.—A new company is confronted with an entirely different problem from that of an old established company. It has an open field, having both managing and soliciting agents to select, and is not handicapped by existing contracts in its determined line of action. It is here that the superior knowledge and experience of the home office management can safeguard and protect the interests of the company in the future. It cannot have its own way in all respects because it has the old established companies to compete with, and through such competition is sometimes forced to enter into contracts contrary to the better judgment of the home office management. Good management, however, will always be willing to lose an agent rather than make a contract in conflict with the plan of action adopted, otherwise, sooner or later, the business will be demoralized. In the present state of development of life underwriting, no company is justified in making a contract with any agent or managing agent giving exclusive control of territory, unless such contract provides for a contribution to the yearly net increase of business and imposes a penalty for failure.

An old established company has vested rights of agents to contend with, according to their respective contracts. A change of plan or policy means a revolution in its agency force. Hence, the importance of having the rights of the respective parties to a contract clearly defined therein.

Limit of Cost of New Business.—The mathematical determination of the premiums for the purpose of paying losses also comprehends determining the portion of premium available for the cost of procuring new business and of carrying out the old contracts. Therefore, there is a mathematical limitation beyond which the cost of new business cannot go without becoming unprofitable, and a few companies have incorporated such limitation in their policy contracts. It is eminently proper for any agent to ascertain from the company what mathematical provision has been made in the premium rates for securing new business. The agent, who takes all the chances of success or failure, has a right to see to it that his compensation is gauged by such mathematical allowance. Such allowance is fairly indicated by the average commissions paid by all companies. On the other hand, the companies that far exceed the average may be fairly assumed to be doing injustice to their policyholders, which in the end militates against the agent because it makes it hard for him to get business. Again, a company which pays considerably less than the average may discriminate either in favor of the home office management or in favor of the policyholders, or both, at the expense of the agent. Generally speaking, however, the companies which provide the smallest compensation to agents do the best for their policyholders, so that agents can readily make up in quantity of business and in its staying qualities what they lose in the rate of commission or compensation.

Determination of Amount of Business to be Written.—The agency management should ascertain from the executive management the policy of the company with reference to volume of new business. Such policy varies according to the ideas and judgment of the executive management. In some instances there is no limitation. Agents are urged to put forth their best efforts and inducements are offered for volume. The matter of caring for the business in the future, after it has been written, is given only secondary thought, volume being regarded of the first importance. In other companies care of the business is given the first place and, in a way,

the securing of it second place. That is to say, unless the management can care for it in a manner entirely satisfactory to all concerned, it prefers not to secure it. The time will come in the history of every life insurance company when it will be able to do little more by way of new business than make good the deaths, surrenders, matured policies, cancellations, etc. The young company can and should have a much larger net increase in insurance in force than the old company, and after a company has been established ten or more years a net annual gain of 10 per cent., by which a company will double its business in about eight years, should practically be the limit of the ambition of the management in order properly and economically to care for the old business, and the time will come in the history of every company when such percentage will be too large.

High Pressure Methods.—The ambition of company management to excel in volume of business has led to "high pressure methods" which are a menace to the life insurance business. These had their origin in a peculiar form of contract made with agents. Agents were given salary and a commission, and, if they produced a certain volume of business, a bonus in addition. In order to produce the volume of business enabling the agent to secure the bonus he was led to rebate his commission. This was done on the theory that by increasing the volume of business so as to earn the bonus, he could afford to divide commissions with his patrons. This and similar methods were employed to increase the volume of business until the practice became a generally recognized evil. Then when its generally disastrous effects were apparent, companies, legislatures, life underwriter associations, and the agents themselves, combined in various efforts at correction. But until policyholders realize that rebates result in a costly selection against the company at their expense, the evil will not be cured. The loading to compensate for obtaining new business, in view of the fact that living expenses have been increasing for a number of years, is no larger than it should be properly to compensate the agents, and any scaling or method that deprives them of that compensation works injury to them. Any company that encourages rebating for the sake of volume with the expectation of correspondingly reducing surplus earnings is not faithful to the trust committed to it, since surplus should be paid to policyholders in dividends.

How Agents are Remunerated.—The general practice, which in the end is most satisfactory, is to pay agents a commission on the first year's premium and, under certain contingencies and conditions, a renewal commission. A brokerage commission is one which is paid the first policy year only and no compensation thereafter. When a company or managing agent assumes the risk of paying a salary, such salary cannot be paid any longer than the business written by the agent justifies or warrants and, therefore, the salary is the equivalent of a commission. In many cases, when a contract is made with a solicitor on a commission basis, such solicitor is allowed a stipulated advance against the whole or a part of his commission earnings with final settlements monthly, quarterly, or as the contract may provide. A company cannot justly pay for business which it does not receive and if the advances are not made good by commission earnings the services of the solicitor are dispensed with and he becomes legally liable for the deficiency.

The most proficient agents prefer to make straight commission contracts with renewals, without any salary or advance complications. It follows, inasmuch as the company in such cases assumes no risk, that those agents secure the best terms.

VI.

The Agent is the Unit of the Agency System.

The Ideal Life Insurance Solicitor.—A life insurance company must be known and judged largely by the character of its representatives: hence, the class of solicitors govern administration and, conversely, ideals of management must govern the type of solicitor sought. The ideal solicitor is not one who engages in the business as a makeshift while looking for something else, but one who chooses the work as his profession because it appeals to him. It is true that a great many men who have become successful solicitors began under some force of circumstances, and not altogether as a matter of choice; but they soon became interested and proved their adaptability to the business. The changed conditions have made it necessary for the solicitor to make some preparation for his work. To begin with, he must have the foundation of good character, truthfulness and honesty of purpose, and, as already stated, suffi-

cient education to be able to understand and comprehend the contracts and intelligently explain them. With these qualifications he must combine reasoning faculties, energy, good judgment and perseverance.

The Solicitor's Triple Responsibility.—First of all, the solicitor owes it to himself and his family to secure a proper reward for his efforts. Second, is his responsibility to his client to supply him with the kind of a contract best suited to his needs, and to see that the client's statements, which form the basis of the contract, have been fairly and honestly recorded, and that he thoroughly comprehends the contract proposed to him. Thirdly, he owes it to his company to see that all the facts are properly, fully and honestly placed before it before the contract is made, to safeguard it against concealment or fraud, and to secure for it all to which it is entitled under the terms of the contract.

The Ideal Agency Manager.—The problem of organization and management of the agency system must in the main be solved by the agency manager. The ideal manager is a man who feels a sense of duty and of responsibility to all concerned, one who has a wide range of experience, who is a student of human nature, who is a diplomat, one who rules kindly but firmly, who cannot be swerved or diverted from a sense of duty, one who does not hesitate to say "no" when improper and unbusinesslike requests are made, one who in his conduct is an example of probity, honesty, energy and application to duty. The ideal agency manager takes nothing for granted. Agents who come with great promise must guarantee performance or be paid only in proportion to performance. He must be a resourceful man, must know how to devise ways and means to secure the material, to organize the material, and to manage it properly when once secured and organized. There is no formula for organization or management but that which is embodied in the man selected as agency manager. The right man will always find the right way.